



February 16, 2021

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. R-1723 and RIN 7100-AF94

Dear Secretary Misback,

The City of Chicago appreciates the opportunity to provide feedback on efforts by the Board of Governors of the Federal Reserve System to modernize the Community Reinvestment Act's supervisory and regulatory framework.

As you know, the CRA was created in part due to the organized response of Chicagoans and other Americans who suffered as a result of discrimination in lending, housing, and community investment against low-income communities, and majority black communities especially. Unfortunately, chronic disparities in mortgage lending activity by race and neighborhood continue to be a major symptom and cause of inequity and lack of opportunity in Chicago.

The City of Chicago agrees with the Board's stated objectives for the contemplated changes, especially those of better meeting the needs of LMI communities, of promoting community engagement, and of strengthening treatment of Minority Deposit Institutions.

However, to strengthen these objectives, the City strongly urges the Board to also create a more rigorous rating process, explicitly focused on racial equity, reducing the racial wealth gap by promoting community wealth building, and supporting long-term affordable rental housing.

Create a More Rigorous Rating Process

A fundamental shortcoming of the CRA is that nearly every bank receives a passing rating, even though many communities where those banks lend—particularly communities of color—suffer from private lending disinvestment, and many homeowners and small business owners with good credit lack access to those lender's services. For example, in Chicago, mortgage lenders with passing CRA scores invested more mortgage dollars in one majority white neighborhood in recent years than in all Black and Latinx communities combined. Black mortgage applicants in Chicago were also denied at a rate three times higher than white applicants in 2019. Until the CRA evaluation process is more rigorous, based on whether investment is increasing in communities with historically low levels of lending and other factors (e.g., reduction in the number of unbanked households), many banks will not take their CRA responsibilities seriously and Chicago will continue to see lending disparities.



Explicitly Focus on Racial Equity

The CRA evaluation process should also include an explicit focus on helping achieve racial equity. For example, CRA exams should include performance measures assessing services to people of color and communities of color, such as lending and investing in majority-people of color census tracts outside of core assessment areas. In addition, scoring on exams should separate and heavily weight findings from fair lending analysis of disparate lending patterns. When banks are found to have a pattern of disparate lending in consumer and small business banking, especially compared to non-Latinx white communities and customers, their CRA scores should be lowered. When banks participate in activities that address racial disparities in lending (e.g., working with community lenders to create mortgage products that increase home ownership rates among low- and moderate-income people of color), scoring factors should consider these efforts and potentially increase a score.

Evaluate Based on Community Engagement, Investment and Support

The CRA should also more meaningfully require community engagement by banks with community-based organizations, including 501c3 nonprofits engaged in activities such as economic development, entrepreneurship and business services, community development, planning, financial education and housing counseling. As part of the CRA evaluation process, banks should demonstrate the time and resources committed to understand and respond to local needs through authentic and accessible engagement processes, such as listening sessions, participatory processes, focus groups, or more. Engagement efforts must be matched with actual investment and financial support to be meaningful.

Reduce the Racial Wealth Gap by Catalyzing Community Wealth Building

Home ownership is one of the most direct routes to creating household wealth, yet there are long-standing disparities in home ownership rates by race and ethnicity. The CRA evaluation process should include a core component that examines whether banks are providing mortgage and home equity loans that offer a path to affordable, sustainable home ownership. Banks need to lower barriers to home ownership caused by underwriting criteria that have disparate racial impact, appraisal bias, lack of down payment assistance, and other factors. The CRA evaluation process should also take into account whether banks offer affordable and flexible small business credit, savings and loan products that create a foundation for sustainable businesses to earn healthy profit margins.

Since the 1970s, the CRA has been a cornerstone of federal policy to mitigate the damage done by redlining and racist lending and investment practices. Chicago remains particularly hard hit by that ongoing crises, and Chicagoans need stronger enforcement of the CRA by the Federal Reserve Bank to hold financial institutions accountable to the lending, service, and investment patterns that push back against these generational disinvestments in many parts of the City.

Sincerely,

Dan Lurie
Chief of Policy
Office of Mayor Lori E. Lightfoot